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Testimony of Attorney General Martha Coakley
Committee on Health Care Financing
May 16, 2011

Thank you for the opportunity to testify before the Committee. Healthcare and making health care reform work have been a significant focus of my agenda as Attorney General. I am committed to working with the Governor and Legislature as a partner to ensure Massachusetts consumers receive quality, affordable health care when they need it.

Reforming health care by achieving health care coverage for over 98% of the Commonwealth a few years ago was a great success, but only the beginning. Addressing health care costs is the next enormous challenge, but it is also a great opportunity. It requires rethinking how we do business. Delivering value in health care will require both innovation and addressing the fundamentals: By innovation, I mean new thinking about payment models, other innovative care management practices, and obtaining and managing new data to measure performance and system success. By fundamentals, I mean repairing the foundation of the market so we can deliver value to consumers.

We can't do the former without addressing the latter. We must act now to fix the foundation in order to move forward on long-term cost containment through innovation.

We in Massachusetts can lead the rest of the country in demonstrating that universal coverage can be achieved, that quality can remain high, and that costs need not continue to rise unabated. This opportunity warrants our best ideas, and our collaboration.

Building Blocks of Cost Containment: Identifying Cost Drivers

Since passing landmark health care reform to expand access, the legislature has begun cost containment efforts, notably in Chapter 305 of 2008 and Chapter 288 of 2010. In 2008, the legislature recognized that it was necessary to lay the groundwork for policy discussions with an annual data-based, in-depth review of the Commonwealth's health care cost trends and cost drivers. The legislature authorized our office to engage in this process and gave us unique tools to examine market dynamics. We took that charge seriously and completed a first-of-its-kind study into the drivers of health care costs in 2010.

Specifically, we found:

- The current system of health care payment is not "value-based"; that is to say the wide disparities in prices paid by insurers to health care providers are not explained by differences in quality, complexity of services or other value-based explanations for different prices;
- Prices paid for health care services, both for hospitals and physicians, are based on market leverage; and
- Overall, there is a lack of transparency throughout the system – in terms of information available to providers as well as employers and consumers.

Accordingly, our recommendations for improving the health care system and driving toward a value-based health care market included:

- Promoting transparent and uniform metrics of health care costs and quality,
- Linking those transparent and uniform metrics to market innovations and reforms, and
- Requiring fair practices in the marketplace to promote healthy market functioning.

In Chapter 288 of 2010, the legislature incorporated several of our recommendations through first-in-the-nation provisions that we hope will bring transparency and fairness to the health care marketplace, including:

- Public reporting of provider price, efficiency, and quality data;
- Development of insurance products – select networks or tiered products – that foster value-based decision-making; and
- Prohibitions of unfair market conduct that impedes market function.

These are further building blocks for our cost containment efforts.

Informing Current Legislative Deliberations

Where are we today? Chapter 288's reforms are beginning to have an impact. The market is starting to respond to increased transparency. Providers acknowledge their own high cost structures. Consumers have a growing interest in insurance products that deliver more value for the health care dollar. While this movement is encouraging, we need to go further.

In House 1849, the Governor has proposed further building blocks of health care cost containment, notably: (1) moving the market toward alternative payment methodologies and "accountable care organizations" or "ACOs"; and (2) instituting a check on unreasonable hospital and physician price increases.

Our office is currently conducting an examination that bears directly on both elements. Our staff is once again conducting a focused review of the health care marketplace.

We anticipate issuing a comprehensive report in late June and look forward to a discussion of those findings and the implications in our health care community. While our analysis is ongoing, we expect our report to demonstrate the following:

- Market dysfunction persists. The wide disparities in provider prices, unrelated to value-based factors as we documented last year, continue unabated. Using alternative payment methods or global payments does not mitigate price disparities.
- There is no "one size fits all" care delivery structure that can be universally successful in providing coordinated care.
- Provider ability to bear risk under global payments should be approached carefully.

- Insurance products are critical to how we will deliver value in the health care market, whether they support risk-based contracts or drive volume to more efficient providers.
- More data is needed across the system – to ensure that providers can manage care, that consumers can make prudent choices and oversight agencies can measure success of reform efforts.

I believe that payment reform should result in system benefits such as better integration of care and better alignment of system incentives. But there is no one, or easy, or quick fix. Instead, these findings show that:

1) A shift to global payments by itself is not the panacea to controlling costs.

Implementing payment reform without addressing the market leverage issue outlined in our first report and to be confirmed in our second is like trying to fix the roof on a house while ignoring a flawed foundation. The evidence is clear: to promote effective, value-based competition, we need to address provider price disparities that have resulted from market leverage. We must shore up the foundation of the health care market to promote value-based purchasing. Tiered and select network product show promise in promoting value based purchasing, but the competitive benefits of those products cannot reverse in the short term the historic effects of price disparities that threaten the financial viability of many extraordinary efficient health care providers.

I commend the Governor for incorporating a mechanism for addressing the issue of unfounded provider price increases in his legislation, and believe his proposal deserves serious consideration. I want to work with the co-Chairs and members of this Committee, the administration and stakeholders to fully examine the Governor's approach as well as to consider other proposals designed to address the persisting price disparities that underscore our market dysfunction, including proposals that address outlier prices and encourage a reasonable convergence of payment rates.

2) **We should encourage innovative models of care delivery but require thoughtful consumer protections for delivery system development and global payments.**

Care coordination should be encouraged across our health care system. But, no single model – no single style of roof -- will work for every hospital or physician. Nor will a single model be best for our market. Bigger is not always better. As we consider delivery system reform, we should carefully examine:

a) the ability of health care providers to bear risk;

b) the adverse consequences of provider consolidation;

c) the significant costs, resources and time needed to develop clinical integration; and

d) the goals of and metrics used to monitor delivery system transformation.

Finally, any legislation on cost containment must keep consumers in mind, and in particular, address how consumers will interact with hospitals and physicians in different care delivery systems and the insurance products they need to support value-based decision-making.

Conclusion

Massachusetts is a national health care leader - not only because we lead the nation in access and have an unmatched level of quality - but also in our unique and demonstrated commitment to addressing health care costs. As we develop thoughtful approaches to delivery system reform, and seek to enact the next building blocks, we should keep in mind that the expansion of health care access was successful because of a shared responsibility of providers, payers, the business community, and consumers. The same will be true of our efforts to tackle health care costs and redesign care in the Commonwealth. I look forward to working with you all.